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Real Estate Economists, Appraisers and Counselors

COIN-OPERATED LAUNDRIES

IF you are ever faced with the problem of appraising a coin-operated automatic laundry we hope this bulletin will give you a few figures and facts to start from and a little background of the business. Coin-ops, as they are known in the trade, first became popular at the close of World War II but didn't gain momentum until recently. Everybody in this business is young in experience if not in years. Consequently, long-term operating statements are not readily available for study. However, we have talked to owners and operators of coin-ops, as well as equipment distributors and institutions financing the operation and we consider their statements to be a reliable source of our information.

It is estimated there are between 150 and 200 coin-ops operating in the St. Louis area. Estimates on the number operating throughout the United States range from 5,000 to 10,000. Most of the coin-ops are unattended and between 80% and 90% are open 24 hours a day, 365 days a year.

The unattended store is adaptable to chain operation and attracts the investor as well as the small entrepreneur. However, absentee ownership is looked upon unfavorably by some of the lending institutions financing the business. A credit check is obtained easily enough by the lender but only past experience is a good measure of entrepreneurial capacity.

About 70% of the coin-ops are organized on a sole-ownership basis and the remaining 30% take the corporate form of business.

So far, the rate of turnover, or mortality, has been negligible, principally because of the newness of the operation and the increasing demand for more operations.

If you are appraising a going concern you will have some past operating data to help you, but if you are appraising the proposed location you will be faced with a series of knotty problems. You will do well to lean toward the conservative side (this will be clarified as you read on) and keep several salient factors in mind.

The choice of any location should be based chiefly upon a study of the area. This is not as trite as it sounds. First of all, heavy vehicular and pedestrian

traffic is important. After estimating the flow of traffic and potential customer demand, try to check your estimates by the type of other going businesses in the neighborhood. You will also want to know the competitive factors, the density of population, and the nature of the population. Shopping centers and shopping areas visited daily by large numbers of people are considered good for coin-ops as well as heavily congested residential areas, subdivisions where families do not own their own laundry equipment, and sections in which there are many rooming houses and apartment houses that do not provide laundry services for their tenants. A good thing to look for is a chain grocery or other chain store operating in the neighborhood. Before any large chain opens, a thorough survey of the area is generally made.

Finding a store in a high-volume spot for the rent a coin-op can afford to pay (most of them rent rather than buy or build) is sometimes a problem. An operator can rarely afford to pay as much as \$250 a month for a store and the average rental is about \$100 a month.

Space requirements vary from a minimum of 800 square feet for a very small store to 1000-1500 square feet for an average operation. An amount of space in excess of current demand is advisable in order to provide room for future expansion.

One absolute necessity is for the laundry to be spotlessly clean. White walls and ceilings are considered the best, perhaps with accents of light blue. The floor should be either linoleum or ceramic tile to withstand hard usage and frequent washings.

Hand in hand with cleanliness is architectural appearance. Though a modern-design store is desirable it is not necessary. However, a glass-front store is almost imperative for two reasons. First, it affords the maximum entry of light, giving a bright appearance, and second, it reduces the risk of vandalism if the store is unattended.

Income and operating information is rather sketchy but we have obtained figures in St. Louis from what we consider reliable sources. A good average sized coin-op in the St. Louis area will gross about \$15,000 during the year. In order to do this volume of business, the laundry would have to be in a good location and should operate 24 hours a day 365 days a year. We might point out that few coin-ops gross as high as \$30,000 per year.

The equipment necessary to handle a gross business of \$15,000 will include 30 nine-pound washing machines; 1 or 2 commercial twenty-five pound washers to be used for shag rugs, etc.; 8 to 10 dryers (the ratio of dryers to washers is about 1 to 3); a water heater; and when necessary, a water softener. If the water in the area exceeds 4 grain hardness, a water softener is advisable to obtain satisfactory laundering results.

The minimum equipment requirements for a coin-op generally include 12 nine-pound washers, 3 or 4 dryers, water heater, and softener, if necessary.

The costs to open a coin-op will vary from approximately \$10,000 for a small laundry to \$20,000 for a large one.

The unit costs vary according to make, model, and area of distribution but run something like this:

9-pound washer	\$ 275
10-pound dryer	300
Water heater	1,500
Water softener	1,500

Installation charges range from \$2,500 for a small laundry to about \$5,000 for one of the larger variety. A good rule of thumb to remember in making your appraisal is that the total cost of all equipment and installation charges averages about \$700 per washer.

If the laundry is a going concern, you simply appraise the laundry as it is, valuing the equipment it has. If, on the other hand, the appraisal is of a proposed automatic laundry, your client should be able to tell you what type of equipment is contemplated.

For purposes of this bulletin we will assume the total capital investment to be \$20,000, allowing \$15,000 for equipment purchases and \$5,000 for installation charges.

Insofar as the expenses are concerned on a coin-op doing an annual gross of \$15,000, the breakdown will be about like this:

	Monthly	Yearly
Rent	\$100	\$1,200
Utilities	200	2,400
Maintenance	50	600
Insurance (including vandalism coverage)	30	360
Taxes	10	120
Miscellaneous	150	1,800
	<u>\$540</u>	<u>\$6,480</u>

This leaves a net income, before depreciation and before owner's salary, of \$710 per month or \$8,520 per year, which is 57% on the gross income.

The Internal Revenue Service allows washers to be depreciated over a period of 3 years and dryers over 8, or the total equipment may be written off on a straight-line basis over 5 years. This permits a 20% depreciation allowance

a year, or a charge of approximately \$3,000 on an equipment investment of \$15,000. These depreciation charges of \$3,000 deducted from annual net income of \$8,520 leave a net return (before income taxes) to the enterprise and owner of \$5,520 or \$460 a month. This amounts to nearly 37% on gross income or 28% on the total investment of \$20,000. Don't forget, this figure includes labor costs as well as the entrepreneurial profit.

The fastest method of writeoff of equipment is felt advisable, not so much because it wears out that fast, although some of it will, but because of continual change and improvement in the type of equipment moving into the market.

Most operators finance their equipment purchases at 20% down and the balance at 6% over a 3-year period. There is, however, some latitude in both directions from these terms.

The short history of the business has been one largely of success. Almost anyone could pick a good location and make a good living. However, the apparent easy pickings are bringing a large number of people into the business, many of whom may not be suited to it in training or disposition. Nevertheless, the future of the industry looks good although most of the pains and mistakes are yet to appear.

The outlook for the operator is as good as his managerial ability and his location. There is no question that the business is growing more competitive, and new operators going into the business should seek all the advice and information they can gather.

Keep in mind when making your appraisal that the field is new and vigorous and subject to the changes and glittering opportunities often found in a new field. Likewise, it is subject to the same hazards. Competition will hasten changes throughout the entire field. One important change already appearing on the scene is the chain store operation. As competition grows, the hatchet may fall fiercely on the marginal operator; therefore, the importance of good management cannot be overstressed. A poor manager can start a coin-op, or any business for that matter, and run it into the ground as soon as times get a little tough. Once a favorable market position is lost, it is difficult to restore.

All in all, we are optimistic regarding the outlook for coin-operated laundries with a proper blend of three prime requisites. Ranking these requisites in the order of their importance, the first would be efficient management; second, good location; and third, good reliable equipment.

This article hasn't told you all there is to know about the coin-op laundry business, nor was it our intention when we started. We hope it has given you an idea of the operation as it appears to us today and a point from which to start in case you ever have to appraise an enterprise of this type.

